

VZCZCXRO2589
RR RUEHFK RUEHKSO RUEHNAG RUEHNH
DE RUEHKO #0044/01 0090534
ZNR UUUUU ZZH
R 090534Z JAN 07
FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC 9617
RHEHAAA/WHITE HOUSE WASHDC
INFO RUEHFR/AMEMBASSY PARIS 5220
RUEHOK/AMCONSUL OSAKA KOBE 2926
RUEHKSO/AMCONSUL SAPPORO 0501
RUEHNAG/AMCONSUL NAGOYA 8961
RUEHFK/AMCONSUL FUKUOKA 9477
RUEHNH/AMCONSUL NAHA 1959
RUCPDOG/USDOC WASHDC

UNCLAS SECTION 01 OF 07 TOKYO 000044

SIPDIS

SIPDIS

SENSITIVE

PARIS PLEASE PASS USOECN
STATE PLEASE PASS TO USTR

E.O. 12958: N/A

TAGS: [ETRD](#) [ECON](#) [JA](#) [ZO](#) [EAGR](#)

SUBJECT: The Japan Economic Scope - Economic News At-A-Glance.

Sensitive but unclassified. Please protect accordingly.

[1. \(SBU\) Table of Contents](#)

- [3. Unemployment Dips to Under 4%](#)
- [4. Cabinet Approves Conservative Regular Budget for FY07](#)
- [5. New Tax Commission Chairman Pro-Growth](#)
- [6. METI "Investment Security" Study Group: Japan's "Exon-Florio"?](#)
- [7. CPRR Issues Mixed Final Reform Recommendations](#)
- [8. Japan Post: Rules of the Road Will Apply to Yu-Pac Too](#)
- [9. Japanese Skeptical of Government's View of the Economy](#)
- [10. Execs Concerned about Foreign M&As](#)
- [11. IPR, Doha, Asean +3/+6: Osaka ABAC and APEC Hanoi Meetings Readout](#)
- [12. Civair: GOJ to Study 24-hour Use of Haneda Airport](#)
- [13. Mizutani Construction Allegedly Paid Bribes for Airport Work](#)
- [14. Kobe Airport Changes Flight Schedule](#)
- [15. Ports: GOJ to Ease Customs Clearance](#)
- [16. Call for Swift Establishment of Basic Ocean Law](#)
- [17. Auto Friction Speculation in the News](#)
- [18. Manufacturers: Aiming for Profits while Meeting Emission Limits](#)
- [19. FDI/FTA: Sharp Builds Mexican LCD TV Plant for U.S. Market](#)
- [20. Kobe: Government and Business Views on 2007 Economic Prospects](#)
- [21. Japan's Fiscal Consolidation: Smaller Required Adjustment Estimated](#)
- [22. Cabinet Office and BOJ Updated Economic Indicators](#)

[2. \(U\) The Japan Economic Scope \(JES\) is a weekly e-newsletter produced by Embassy Tokyo's ECON section in collaboration with other sections and constituent Posts and published every Friday. It provides a brief overview of recent economic developments, insights gleaned from contacts, summaries of the latest cables and a list of upcoming visitors. This cable contains the January 5, 2007, JES, minus the attachments that accompany many of the individual stories in the e-mail version. To be added to the e-mail list, please email \[ProgarJ@state.gov\]\(mailto:ProgarJ@state.gov\).](#)

[3. \(SBU\) Unemployment Dips to Under 4%](#)

Japan's seasonally adjusted unemployment rate fell slightly to 3.99% in November, the first time it has dropped below four percent since March 1998. The job offers-to-applicants ratio remained 1.06.

While a tighter labor market could encourage workers to change jobs in search of better pay and benefits, one market observer predicted that the rate will continue a gradual decline, possibly to the mid-3 percent range, into 2008.

4.(U) Cabinet Approves Conservative Regular Budget for FY07

The Cabinet approved the central government's regular budget for FY07 (April 2007 Q March 2008) on December 24, clearing the way for its submission to the Diet.

As is the typical budgetary pattern, the regular general account budget for FY07 shows an increase of 4.0 percent in overall outlays over the initial FY06 budget, but a decline of 0.7 percent from the revised FY06 budget, inclusive of the supplemental.

The FY07 budget projects a record ¥4.5 trillion (nearly one percent of GDP) reduction in government bond issuance, thanks to the expected brisk growth in tax revenues.

Due to the sizable cut in the deficit, Finance Minister Omi said in a December 20 press conference that there is the possibility of moving up the current FY11 target to achieve primary fiscal balance of the central and local governments by one or two years. See attached for details.

15. (U) New Tax Commission Chairman Pro-Growth

Prime Minister Abe selected Yutaka Kosai to replace disgraced

TOKYO 00000044 002 OF 007

Masaaki Honma as head of the government's Tax Commission. Kosai, an economist, is a known reformer.

There was speculation that tax reform would be derailed because of the personal scandal that brought down Honma, but Kosai is expected to pursue pro-growth changes to support the Abe administration's reform efforts.

16. (SBU) METI "Investment Security" Study Group: Japan's "Exon-Florio"?

METI announced the establishment of a "Study Group on the International Investment Climate in a Globalized Economy", under the chairmanship of Waseda University Graduate School Professor Shujiro Urata, which is tasked with reviewing regulations concerning inward FDI (especially the Foreign Exchange Law), with a view toward securing sensitive technologies and national security.

Such a review was included among the recommendations regarding Japan's M&A laws issued by Keidanren (KDR) on December 12. The METI proposal addresses concerns expressed by some business leaders that increased foreign merger activity risks the loss of "sensitive" Japanese technology and appears to be a step toward setting up a formal review procedure for cross-border merger deals in sensitive sectors similar to the U.S.' CFIUS process.

The 20-member study group consists of academics, leading M&A lawyers and executives of several large corporate enterprises including Canon (the company led by KDR chairman Mitarai), Nippon Steel, Toyota, Mitsubishi Heavy Industry and Sumitomo. According to a METI press release, the group met for the first time on December 19 and will advise the Director Generals of the Trade and Economic Cooperation Bureau and the Economic and Industrial Policy Bureau on "measures to address problems arising from the growth of international investment activities and changes in the national security environment."

Separately, a January 4 Sankei Shimbun press report said METI plans to tighten its regulations on foreign M&A to prevent the proliferation of technology that can be used for WMD. The article

hinted the target of the new rules were Chinese state-owned enterprises.

17. (U) CPRR Issues Mixed Final Reform Recommendations

The Council for the Promotion of Regulatory Reform (CPRR) issued its third, final and much watered-down report of recommendations of issues on which the GOJ should focus its reform efforts on December 125.

Press articles state that key recommendations from the interim version issued in July were dropped, including several on education and collective bargaining reform.

The CPRR did recommend revising work hour legislation to eliminate the need to pay white-collar workers overtime.

Other "recommendations," most notably on Haneda Airport slot allotment rules and pharmaceutical approvals, however, simply suggest continued study and discussion rather than specific action.

Separately, the Cabinet Office announced the appointment of fifteen new members to the Council effective January 2007. Eight current members, including current Chairman Takao Kusakari, will continue their reform work. For more details, see Tokyo 7180.

18. (SBU) Japan Post: Rules of the Road Will Apply to Yu-Pac Too

National Police Administration officials told Econoffs that, beginning June 2007, new license plates will be issued to distinguish between Japan Post's Yupac express mail delivery vehicles and those vehicles delivering Japan Post's universal service mail.

The former will have to abide by the same parking rules and enforcement private express mail delivery companies. If a truck is found in violation of this separation of Yupac and Universal Service, the license will be revoked.

TOKYO 00000044 003 OF 007

This issue has been a major industry concern due to the recent crackdown in parking enforcement and the resulting increase in the cost of doing business.

19. (U) Japanese Skeptical of Government's View of the Economy

In a Yomiuri Shimbun poll conducted on December 9-10, 78 percent of respondents stated they "felt the government's view that the economy was recovering was unrealistic or doubtful." A similar number believe the gap between rich and poor was widening. The full article can be found here.

110. (SBU) Execs Concerned about Foreign M&As

The Embassy and the foreign business community here clearly have a continuing challenge to convince corporate leaders that M&A has benefits both to the Japanese economy as a whole as well as to individual companies.

's top executives are "concerned" about new rules for triangular mergers that are to take effect in May 2007, according to year-end Nikkei poll. Ironically, 84% percent of respondents also said they were "actively considering" M&A strategies to increase their firms' competitiveness in an increasingly global market.

The seeming disparity comes from the strong aversion of Japanese managers to "hostile" takeovers, although only nine percent considered this an inevitable risk for a listed company.

According to the poll, Japanese executives still view cross-border triangular merger as inherently "hostile" and "abusive" and potential foreign acquirers as only interested in short-term profits.

Forty percent of those opposed to foreign M&A cited fears "their

firm would be dissolved immediately," while 23% worried their company "would immediately be resold."

11. (SBU) IPR, Doha, Asean +3/+6: Osaka ABAC and APEC Hanoi Meetings
Readout

Kansai Economic Federation (Kankeiren) held a briefing on the recent APEC Business Advisory Council (ABAC) and APEC meeting in Hanoi in late December.

ABAC consists of private sector committees that formulate advice and requests to their government counterparts in APEC. The ABAC Japan Committee is currently composed of Mr. Yukio Shotoku, Advisor from Matsushita Electric, Mr. Yoshio Ishizaka, Advisor from Toyota, and Mr. Yasuo Kanzaki, Advisor from Nikko City Group Securities.

Mr. Nobuhiko Sasaki, APEC negotiator from METI, and Mr. Masashi Mizukami, Deputy Director-General from MOFA also attended the meeting to report on the meetings in Hanoi (Click here for further details).

The GOJ and ABAC Japan representatives present in Osaka were very much interested in American commitments made in Hanoi. ABAC urged PM Abe to help resolve Japanese firms' IPR protection problems in East Asia, and to restart WTO DDR talks prior to APEC Hanoi. Mr. Shotoku said that the IPR issue was one of the most important issues for all participants in Hanoi.

METI's Sasaki mentioned that most Asian countries did not welcome the concept of either ASEAN +3 or +6.

The Kansai region around Osaka is home to many SMEs operating in China and Southeast Asia, and there was a high level of interest in the Osaka debriefing on how APEC can protect small business investors. Mr. Mizukami commented that unfortunately the discussion in APEC has not followed the issue, but it should be covered in the near future.

The business audience also expressed strong interest in business opportunities available through APEC initiatives.

TOKYO 00000044 004 OF 007

12. (U) Civair: GOJ to Study 24-hour Use of Haneda Airport

The Abe administration will establish a study group this January to examine the 24-hour use of Haneda airport as part of PM Abe's "Asia Gateway" initiative according to the Tokyo Shimbun.

Special Advisor to the Prime Minister Nemoto will lead the group and it will produce a report with specific measures for the full 24-hour use of Haneda airport by May 2007.

13. (SBU) Mizutani Construction Allegedly Paid Bribes for Airport Work

Mizutani Construction spent about 1.5 billion yen (\$13 million) on bribes and kickbacks, with the bulk going to yakuza groups and a lesser amount to Diet members' aides, according to the Asahi Shimbun.

Many of the bribes were allegedly tied to Mizutani's land reclamation work for Osaka's Kansai International and Nagoya's Chubu International Airports.

Mizutani's chairman and other staff pleaded guilty in December to hiding 3.8 billion yen (\$32 million) in corporate income. Among the Diet members previously reported to have received legitimate political donations from the Nagoya-area based Mizutani between 1998 and 2004 were then-Health Labor and Welfare Minister

Jiro Kawasaki, then Science and Technology Minister Iwao Matsuda, and then-DPJ Vice President Ichiro Ozawa.

Those donations were all relatively small, in the two to three million yen (about \$20,000 to \$30,000) range.

¶14. (SBU) Kobe Airport Changes Flight Schedule

Kobe City announced that JAL and ANA would change flight schedules and routes to and from Kobe Airport due to the gap between routes with high/low load factors, and increasing fuel costs.

Since the opening of UKB in February 2006, Haneda, Naha, and Sapporo routes reached 60-70 percent load factors, but routes to Sendai, Niigata, and Kagoshima are only selling at 30-40 percent.

ANA will discontinue its Kagoshima route and add one flight each to Haneda and Naha in April, and discontinue its Niigata route and add one flight to Sapporo in June.

JAL will also discontinue its Sendai and Kumamoto routes and increase coverage of Sapporo and Ishigaki Island, Okinawa in June or July. There will be no change in each carrier's total flights servicing Kobe.

A Kobe City official told ConGen that he expects an increase in revenue from higher landing fees due to the larger aircraft likely to be used by both ANA and JAL.

However, he noted that the city government was surprised to learn how airlines quickly react to changes in profitability on their routes, signaling that the city has a long way to go in understanding the aviation industry.

¶15. (SBU) Ports: GOJ to Ease Customs Clearance

The government's Asian Gateway council plans to recommend changing cargo handling at ports and airports to improve efficiencies and cut costs under the heading "Distribution Big Bang," according to the Yomiuri Shimbun.

The GOJ aims to bring port handling costs more in line with the other major Asian ports in order to promote trade and stimulate the economy.

Further discussions on promoting efficiency are to begin in January

TOKYO 00000044 005 OF 007

and the council intends to have a final report by late May.

Foreign maritime operators told Econoff in interviews over the past several weeks that Japanese ports have high cargo handling costs and as a result have been losing business Q particularly the transshipment of goods -- to the more efficient Asian ports, especially Korea.

Shippers, even from Japan's west coast, find it more economic to aggregate smaller loads into larger shipments at Pusan, Korea. The GOJ over the last year has been seeking measures to counteract this trend.

¶16. (U) Call for Swift Establishment of Basic Ocean Law

Underscoring the interest in revising Japan's marine policy, a Yomiuri Shimbun editorial on December 31 called for swift establishment of Basic ocean law, which is expected to be submitted to the ordinary Diet Sessions this year. For more background on the maritime bill, see JES Volume 2 Issue #50 Q December 22, 2006.

¶17. (U) Auto Friction Speculation in the News

High level of car exports to the United States Q the highest since

the early 1990s when auto trade friction was at its peak -- increasing sales in the United States Q Toyota taking third place in sales in 2006 in the United States received wide coverage here Q and the Democrat Party's control of the new Congress have fueled Japanese press reports about Japanese automakers worries over a possible rise of protectionism in the United States.

¶18. (SBU) Manufacturers: Aiming for Profits while Meeting Emission Limits

Even as large Japanese manufacturers, including Osaka-based Matsushita and Sharp, enjoyed a surge in sales over the past year, they have bumped up against a new problem: the requirement to reduce CO2 emissions under Japan's Kyoto Protocol commitments.

The problem is acute for firms relying heavily on coal-dependent manufacturing plants in China and electronics and auto manufacturers, whose products contain higher levels of toxic substances like lead or cadmium or which produce high levels of carbon emissions while operating.

Some firms, however, are taking a long-range view of these emissions requirements by rethinking the entire production line in order to improve total energy efficiency and increase recyclability, while making their goods more profitable and attractive to American consumers.

Matsushita, whose carbon emissions have otherwise risen by almost 14 percent since 2002, has had remarkable success in eliminating all lead from its flat glass displays, which made up approximately 97 percent of the total lead content in their popular flat panel TVs.

The firm has begun emphasizing its corporate responsibility and environmental consciousness in meetings with ConGen staff. By incentivizing "green" production for its engineers and designers, Matsushita executives are confident they will beat a GOJ Environment Ministry goal of 25 percent reduction in CO2 output from 1990 levels among electronics manufacturers by 2012.

¶19. (U) FDI/FTA: Sharp Builds Mexican LCD TV Plant for U.S. Market

Sharp Corp, the strongest LCD flat screen TV manufacturer in Japan, will build a new five billion yen (\$41.7 million) LCD TV assembly plant in Mexico's Baja California region this year, next to an existing Sharp facility.

Due to the current boom in flat TV sales in the United States, Sharp aims to produce 150,000 TV sets a month by the fall, increasing current production capacity threefold.

TOKYO 00000044 006 OF 007

Sharp has been slow to join Sony and Matsushita in increasing production within NAFTA. Sharp had a 9.7 percent and falling share of the U.S. market in summer 2006.

Japanese competition in the flat TV market in the United States is set to accelerate in 2007.

¶20. (U) Kobe: Government and Business Views on 2007 Economic Prospects

Highlights of today's Kobe-Hyogo Joint New Year's Party organized by the Hyogo Chamber of Commerce included Mayor Yada's call for improving local business conditions in Kobe by making more use of the city's transportation links, including Kobe Airport (UKB) and the Port of Kobe, the latter of which is about to enter its 140th year of operation as an international seaport. Citing its designation as a super hub port, Yada hoped to see an increase in the flow of goods and people this year to celebrate this anniversary.

Although some said the corner had finally been turned on Kobe's recovery from the 1995 Hanshin Earthquake, at least one SME business group representative said things were still bad for small business owners due to the increased competition from Chinese textiles and manufacturing.

Business, government, academic and military leaders all variously sought greater cooperation from the USG on economic and political issues.

Governor Ido specifically asked Econoff to make progress in efforts to promote greater U.S. SME investment in local markets.

¶21. (U) Japan's Fiscal Consolidation: Smaller Required Adjustment Estimated

The Cabinet Office presented to the Council on Fiscal and Economic Policy a revised estimate on the required adjustment to achieve a combined central/local government primary surplus on a national accounts basis by JPFY11 on December 26.

According to the estimate, the required adjustment was revised sizably downward, from the initially projected ¥16.5 trillion (3.2 percent of GDP), to ¥9.5 trillion (1.9 percent of GDP), reflecting restrictive discretionary spending and brisk tax revenues projected in the Cabinet-approved budget for FY07.

Central/local government expenditures for FY07 are estimated to total ¥107.3 trillion in FY07, about ¥3.5 trillion smaller than the amount without spending reforms.

Tax revenues for FY11 are now projected to be about ¥3.5 trillion larger than the initial estimate. See attached for details.

¶22. (U) Cabinet Office and BOJ Updated Economic Indicators

The Cabinet Office kept its overall assessment of Japan's economy unchanged, noting that the economy is recovering, although there is some weakness in consumption.

The monthly economic report, submitted to the Cabinet on December 25, indicated that personal consumption will increase if the growth of income changes for the better with improvement in employment. It added that consumer prices are flat, while growth of corporate goods prices has slowed with declines in oil prices. The BOJ report, released on December 19, also left unchanged its core economic assessment, indicating that the economy is "expanding moderately."

However, the BOJ indicated somewhat a cautious view on personal consumption, noting an increasing trend, although at a moderate pace.

The BOJ outlook expects the economy to continue expanding moderately. See attached document for further details.

TOKYO 00000044 007 OF 007

DONOVAN